FDIC State Profile

Fall 2005

Wisconsin

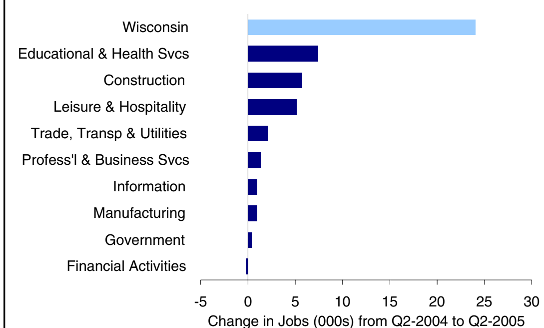
Wisconsin maintains healthy job growth.

- Despite a declining labor force, Wisconsin continues to have a relatively low and declining unemployment rate, 4.6 percent compared with 5.0 percent for the nation, at second quarter 2005.
- Payroll employment grew by 24,000 jobs, or 0.9 percent, between second quarters 2004 and 2005. All major sectors experienced growth with the exception of finance, which was essentially unchanged. Professional and business services, which reported small losses in first quarter 2005, started to hire again (see Chart 1).
- Wisconsin consumers quickly felt the effects of the recent Gulf Coast hurricanes as higher gas prices took a larger share of their paychecks. Should energy prices remain elevated, some energy-dependent manufacturers (especially auto producers and suppliers) may see profit margins squeezed; farmers may see higher harvest and shipping costs; and, ultimately, consumers may alter their spending and travel habits. Still, other industries associated with building materials and construction likely will see demand for their products increase as rebuilding efforts commence in the affected areas.

Home price appreciation lags the nation.

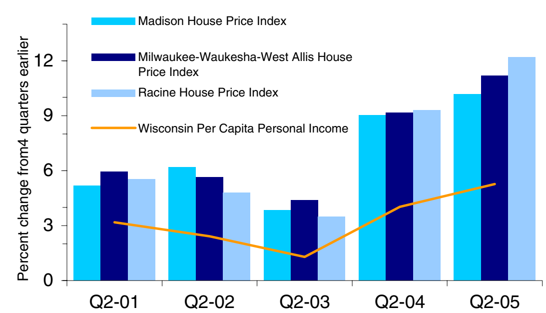
- Wisconsin's year-over-year growth in home prices at 9.5 percent was below the national level of 13.4 percent at second quarter 2005. Relatively low population growth contributed to moderate price appreciation. Wisconsin's population growth has averaged 0.7 percent over the past five years, compared to a national level of 1 percent.
- Wisconsin's per capita personal income growth of 5.3 percent in the year-ending second quarter 2005 paralleled the national trend and rate of 5.5 percent. However, house prices in the state continued to appreciate faster than personal income, a situation that suggests homes may become increasingly difficult for some consumers to purchase, especially in the **Racine**, **Milwaukee-Waukesha-West Allis**, and **Madison** metropolitan areas (see Chart 2.) These three metros

Chart 1: Wisconsin Enjoys Widespread Employment Gains



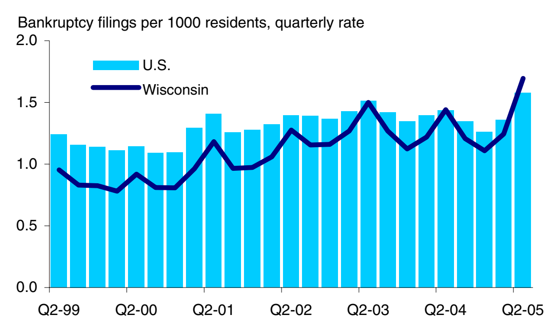
Source: Bureau of Labor Statistics

Chart 2: Personal Income Growth Lags Home Price Appreciation in Some Metros



Source: Office of Federal Housing Enterprise Oversight, Bureau of Economic Analysis

Chart 3: Wisconsin Bankruptcy Rates Mirror National Rates



Source: Administrative Office of the U.S. Courts posted double-digit home price growth and are driving Wisconsin's home price appreciation.

Household conditions are generally improving with some mixed results.

- Favorable employment conditions and improved personal income growth helped keep foreclosures below average. The quarterly percentage of loans in foreclosure over the past year has averaged 1.07 percent for Wisconsin compared to 1.14 percent nationally. Bankruptcies, which have been in line with or below the national level, edged above the national level at second quarter 2005 (see Chart 3).

- The percentage of Wisconsin residential mortgages loans originated by both bank and nonbank lenders that were past-due 90 days or more averaged 0.6 percent, compared with 0.9 percent nationally over the past year.

Community institution earnings performance improves slightly.[1]

- The second quarter annualized return on assets for Wisconsin community institutions increased from second quarter a year ago due in large part to securities gains and a decline in provision expense, and despite a decrease in noninterest income (see Table 1). The potential for future securities gains should diminish if interest rates continue to rise.

- The net interest margin for community institutions increased slightly as the loan to asset ratio continues to grow, reaching 74.3 percent at second quarter 2005, the highest level in years and among the highest in the nation.

Asset quality improves, but commercial real estate (CRE) exposures warrant monitoring.

- The past-due and net charge-off rates for Wisconsin community institutions declined to 1.7 percent and 0.1 percent, respectively, at second quarter 2005. The major loan categories experienced declines in past-due rates. However, the smaller loan categories of home equity, construction, and multifamily real estate experienced moderate increases (see Chart 4). Declining delinquencies boosted loan loss reserve coverage of noncurrent loans to 156.5 percent at second quarter 2005.

- The loan mix for Wisconsin community institutions continues to shift from 1-4 family real estate loans to relatively higher risk CRE[2] loans. Over the past five years, 1-4 family real estate loans declined from 37 percent to 28 percent of total loans at second quarter 2005. Meanwhile, the share of CRE loans increased from 29 percent at mid-year 2001 to 40 percent as of mid-year 2005.

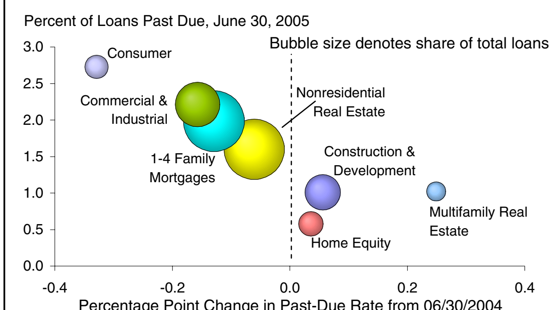
- Many Wisconsin institutions are increasingly growing their CRE loan portfolios (see Chart 5). Over the past five years, the percentage of institutions with exposures to CRE loans greater than 300 percent of Tier 1 capital has nearly doubled for both community institutions and large institutions, reaching a record 38.6 percent and 63.6.percent, respectively.

Table 1: Securities Gains Boosted Profitability

Income statement contribution (percent of average assets)	3 months ended June 30 2004	3 months ended June 30 2005	Percentage Point Change
Net Interest Income	3.60	3.62	0.02
Noninterest Income	0.80	0.73	-0.07
Noninterest Expense	-2.72	-2.71	0.01
Provision Expense	-0.15	-0.12	0.03
Security Gains & Losses	0.02	0.07	0.05
Pretax Net Income	1.55	1.59	0.04
Income Taxes	-0.42	-0.41	0.01
Net Income (ROA)	1.13	1.18	0.05

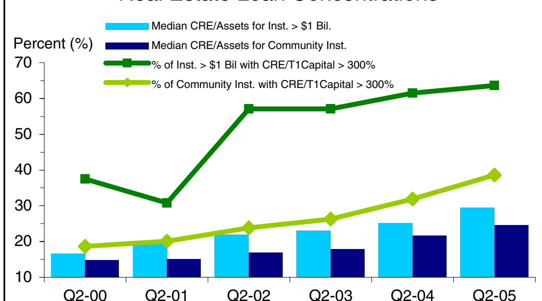
Source: FDIC. Merger-adjusted data for Wisconsin's Community Institutions

Chart 4: Past Due Rates Decline for Major Loan Categories



Source: FDIC. Merger-adjusted data for Wisconsin's Community Institutions

Chart 5: WI Institutions Increase Commercial Real Estate Loan Concentrations



Source: FDIC. CRE loans include Nonresidential, Construction, and Multifamily Real Estate Loans.

[1] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.
[2] CRE consists of multifamily residential real estate, construction, and nonresidential real estate.

Wisconsin at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.9%	1.2%	0.9%	1.0%	-0.3%
Manufacturing (18%)	0.2%	1.0%	-0.8%	-0.4%	-4.6%
Other (non-manufacturing) Goods-Producing (5%)	4.1%	3.3%	2.5%	1.8%	-0.1%
Private Service-Producing (63%)	1.0%	1.2%	1.7%	1.7%	1.1%
Government (15%)	0.1%	0.8%	-1.2%	-0.2%	-0.5%
Unemployment Rate (% of labor force)	4.6	4.8	5.0	5.0	5.6

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.9%	6.0%	6.7%	5.4%	2.6%
Single-Family Home Permits	0.6%	-5.7%	-0.7%	1.5%	8.8%
Multifamily Building Permits	10.2%	-19.5%	-30.8%	-21.1%	-7.2%
Existing Home Sales	5.4%	-1.3%	-12.7%	10.3%	0.4%
Home Price Index	9.5%	9.7%	7.9%	8.4%	4.7%
Bankruptcy Filings per 1000 people (quarterly annualized level)	6.78	4.98	5.77	4.97	5.07

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	303	305	310	308	311
Total Assets (in millions)	121,914	119,178	111,938	118,361	109,404
New Institutions (# < 3 years)	1	1	2	1	5
Subchapter S Institutions	68	69	63	65	60

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.60	1.74	1.81	1.68	2.03
ALLL/Total Loans (median %)	1.18	1.22	1.24	1.23	1.27
ALLL/Noncurrent Loans (median multiple)	1.69	1.64	1.56	1.72	1.34
Net Loan Losses / Total Loans (median %)	0.02	0.00	0.03	0.07	0.09

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.78	9.72	9.74	9.77	9.62
Return on Assets (median %)	1.09	1.13	1.12	1.09	1.18
Pretax Return on Assets (median %)	1.52	1.52	1.50	1.47	1.58
Net Interest Margin (median %)	4.00	3.98	3.99	3.98	3.94
Yield on Earning Assets (median %)	6.03	5.78	5.55	5.60	5.86
Cost of Funding Earning Assets (median %)	2.00	1.81	1.60	1.65	1.91
Provisions to Avg. Assets (median %)	0.08	0.08	0.10	0.11	0.13
Noninterest Income to Avg. Assets (median %)	0.57	0.62	0.62	0.59	0.71
Overhead to Avg. Assets (median %)	2.66	2.71	2.65	2.71	2.70

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	74.7	73.4	71.6	71.9	69.4
Noncore Funding to Assets (median %)	19.0	18.1	16.3	17.1	15.2
Long-term Assets to Assets (median %, call filers)	8.0	8.5	9.9	8.4	9.7
Brokered Deposits (number of institutions)	165	164	146	155	137
Brokered Deposits to Assets (median % for those above)	5.0	4.5	3.9	4.3	3.3

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	88.2	86.9	93.0	85.6	91.8
Commercial Real Estate	260.4	238.7	218.2	232.3	205.6
Construction & Development	43.5	41.2	36.2	39.0	34.2
Multifamily Residential Real Estate	7.3	6.5	5.3	6.0	4.8
Nonresidential Real Estate	168.2	164.2	155.7	163.4	143.4
Residential Real Estate	227.8	227.5	223.8	233.1	228.2
Consumer	29.1	29.6	32.7	30.8	35.7
Agriculture	34.0	32.0	35.1	32.0	35.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Milwaukee-Waukesha-West Allis, WI	61	38,461	< $250 million	235 (77.6%)
Madison, WI	49	10,341	$250 million to $1 billion	57 (18.8%)
Green Bay, WI	26	4,998	$1 billion to $10 billion	9 (3%)
Appleton, WI	30	2,873	> $10 billion	2 (0.7%)
Racine, WI	18	2,462		